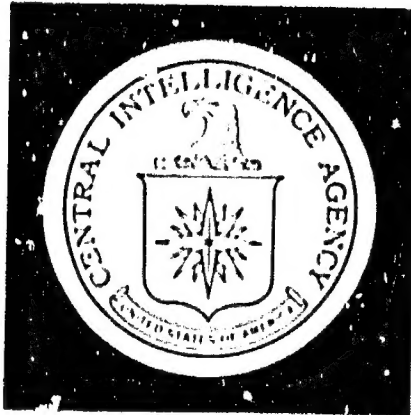


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FRANCE: Government officials are apprehensive over the long-term political effects of the US economic program.

In a recent conversation with a US official, President Pompidou's economic and financial adviser, Jean-Reno Bernard, emphasized Paris' desire to maintain the solidarity of the Western alliance. He feared that this could be jeopardized if the US, for the sake of possible short-term gains, were tempted "to try to divide the Europeans."

Bernard also complained about the vagueness of US demands in the trade field. The failure to specify what Washington means by "tangible progress" in eliminating trade barriers, he said, was leading to charges that the US was becoming protectionist and isolationist. Although Bernard said France's present "comfortable" economic position could enable it to postpone a solution for a while, a delay of six months to a year, he claimed, would mean irreparable damage to the international trading system and traditional US political interests.

The French official conceded that it would be "very difficult" to change Paris' opposition to a revaluation of the franc and noted that "only Pompidou, himself, could do it." Bernard nevertheless admitted that the present devaluation of the franc relative to the Deutschmark was contributing to inflation in France. Pompidou, meanwhile, has sent a positive reply to Chancellor Brandt's request for a meeting later this year to discuss the monetary differences between the two countries. Brandt has lately been saying that an interim "European solution" to the monetary crisis may be needed if worldwide agreement cannot be achieved. This position was confirmed at a meeting of the EC finance ministers yesterday. (CONFIDENTIAL NO FOREIGN DISSEM)

YUGOSLAVIA: Tito's preoccupation with his visits to Iran, India, Egypt, and the US during the last month has caused a delay in party reform.

A confidential source told the US chargé in Belgrade that the party conference which is to consider the reform has been postponed from this month until sometime in early 1972. The main cause has been the failure of the other party leaders to resolve internal differences without Tito's goading and supervision.

Tito wants to reduce the possibility of a power vacuum after his death by creating a strong central party organization to serve as an effective unifying force. Regional party leaders, however, are jealously protective of powers that have devolved to them over the past five years and are countering Tito's proposals with demands for an even looser association with Belgrade. Nationalism also is an important influence in their opposition because party leaders from minority areas fear domination of a strong central party administration by the Serb majority.

In addition to the organizational problems, significant personnel decisions are to be made at the conference. The most important, of course, is clarification of the succession to Tito's party posts. There is also the embarrassing situation of the "extra-legal" status of four party leaders who have been promoted to top state posts which, theoretically, disqualify them for the seats they hold on the party executive bureau. Settlement of these issues will almost certainly involve bitter political infighting. (CONFIDENTIAL)

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EUROPEAN FREE TRADE ASSOCIATION: The UK officially has announced its withdrawal from the nine-member European Free Trade Association (EFTA) as of 31 December 1972.

Britain, which is responsible for 44 percent of EFTA's total trade, expects to join an expanded European Community (EC) the following day. This pronouncement by Britain's chief negotiator to the Community follows the recent parliamentary victory for EC membership.

Formed in 1959 as an attempt at "bridge-building" to EC membership, EFTA has been an unexpected economic success. During its first decade in operation, intra-EFTA trade more than doubled, growing faster than world trade--186 percent vis-a-vis 145 percent. With only three percent of the world's population, the association now accounts for over 16 percent of the world's total trade.

Though EFTA will be dissolved when Britain, Denmark, and Norway enter the EC, both the EC and the six non-applicant EFTA members are determined to form an industrial free trade area. This type of arrangement will largely preserve existing intra-EFTA trading relationships. (CONFIDENTIAL NO FOREIGN DISSEM)

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BELGIUM: The coalition partners--the Socialists and Social Christians--enter Sunday's election confident that they will emerge victorious.

Until last week, the month-long electoral campaign was extremely quiet, with both government parties, as well as the opposition Liberals, stressing their ability to manage efficiently the welfare state. The Social Christians, however, also campaigned on a strong pro-European political integration platform, calling for the democratic election of a European parliament, while the Socialists advocated a reduction of military service to six months and diplomatic recognition of East Germany.

The country's linguistic issue figured but little in the campaigning until the Eurocrat Paul-Henri Spaak urged the voters to reject the traditional parties. Spaak, who was three times a Socialist prime minister and six times the country's foreign minister, publicly criticized the recent constitutional changes aimed at creating inter-communal harmony and attacked Flemish "imperialistic designs" against the largely French-speaking capital. The federalist parties--the Flemish-Volksunie and the Francophone Democratic Front--have naturally welcomed Spaak's "frank" observations. Coalition leaders quickly accused Spaak of everything from imprudence to betrayal.

Spaak's intrusion may have only minimal affect, although linguistic contention is still vivid in bilingual Brussels where nine slates of candidates are competing. Over-all the badly fragmented Liberal Party should lose seats and neither regional party--the Volksunie and the Walloon Rally--is expected to poll well. (CONFIDENTIAL)

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BRAZIL: The spate of anti-US terrorist activities commemorating the second anniversary of the death of guerrilla leader Carlos Marighella indicates that the terrorists are attempting a recovery from reverses suffered in the last year. The National Liberating Action (ALN), the apparent perpetrator of this week's firebomb attacks in Sao Paulo against the homes and property of the US deputy consul and three American business executives, has been one of the most active groups in recent months. It was less devastated than other groups by the government's counterterror campaign, and recent robberies may have overcome supply shortages reported earlier. It is probably capable of continuing low-level activities for some time. (SECRET NO FOREIGN DISSEM)

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SWITZERLAND: The four-party coalition will continue to govern following last weekend's election. All the major coalition parties suffered losses with the exception of the Farmers' Party. The Social Democrats were particularly hard hit--losing five of their 51 seats, a big swing in conservative Switzerland. The Radical Democrats and the Christian Democrats each lost one mandate and will have, respectively, 49 and 44 seats. The 12-year-old coalition, however, retains an overwhelming parliamentary majority and its members will continue to share executive power on the basis of a pre-arranged formula. No change in foreign or domestic policy is expected. (CONFIDENTIAL)

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